FESE response to ESMA consultation on the technical standards under the ESGR Regulation

20th June 2025, Brussels

1. **Do you agree with ESMA's proposals for the draft technical standard under Articles 6(3) and 12(9)?**

FESE supports a level playing field between EU and third-country players in terms of regulatory requirements. As a general remark, we believe that some of the requirements for third-country recognition are overly restrictive when compared to other regulations and more burdensome than those for authorisation for EU-based providers. As already established in the Level 1 text, this includes, besides the authorisation requirements, an independent external audit or certification, or the legal representation within the EU.

According to Recital 9 of the ESG Ratings Regulation, the Commission and ESMA should take into account the application of IOSCO recommendations when assessing the compliance of an ESG rating provider opting for equivalence, endorsement, or recognition. In this context, we believe that this provision should be further reinforced in the draft RTS. We fully support that compliance with IOSCO recommendations for ESG Ratings is deemed equivalent to the proposed regulation.

In addition, we note that the definition of "ESG rating" contained in the regulation remains broad and could thus be subject to divergent interpretations. Consequently, we consider it necessary for the European Commission to provide more clarity on how the definition of ESG rating should be applied in practice (e.g., distinctions between opinions and scores, as well as potential variations in the stringency of their regimes). This remains a fundamental issue for the industry and how the definition is interpreted could have a significant impact on the regulation's scope of application.

To provide a practical example, the application for authorisation requires ESG rating providers to list the products that they offer under Part H on expected market coverage. It is difficult for ESG rating providers to gauge which products are appropriate to include in this section of the application based on the current (unclarified) definition of ESG rating. If interpreted broadly, in such a way as to effectively scope in ESG data products, this section of the application could become extremely lengthy and burdensome (not to mention trigger the other requirements applicable to ESG ratings in the regulation). We believe that this would be contrary to the intent of the co-legislators and inconsistent with the current focus on simplifying regulation in the EU. Other Parts within the application of authorisation could likewise benefit from more streamlined requirements and a proportionate approach—considerations that FESE believes should be taken into account by the Commission, co-legislators, and ESMA while moving forward in the overall financial services legislative agenda.

Furthermore, it could be useful for ESMA to (i) clarify or provide examples of what constitutes an accreditation or certification process cf. Reg. Art. 2.2 (o), as well as (ii) provide examples or definitions of labelling activities, as specified in Reg. Art. 2.2 (p).

2. **Do you agree with ESMA's proposals for the draft technical standard under Article 16(5)?**

While all perceived or actual conflicts of interest and steps taken to address them should be publicly disclosed, the introduction of very strict requirements could hinder the development of this growing industry and limit the diversity of research offerings available in the market.

Further, the Level 1 text does not require mandating "Chinese walls" where the text contemplates legal separation, and this could represent a major and unnecessary intervention in the operations of ESG service providers that could ultimately be highly disruptive. Legal separation and "Chinese walls" should not be treated interchangeably. Further, in view of the time that will remain to ESG rating providers after the adoption of Level 2 measures under the ESG ratings regulation, coming into compliance with such requirements in time for the application date would be extremely challenging.

3. **Do you agree with ESMA's proposals for the draft technical standard under Articles 23(4) and 24(3)?**

In general, FESE supports the fostering of methodological transparency without pursuing methodological harmonisation. The independence of choice of ESG rating providers should be maintained, while avoiding the imposition of minimum requirements on the content of ESG ratings or mandating specific criteria for the information included in rating methodologies. Care must be taken to ensure that disclosures do not reveal sensitive business information.

We are supportive of ESMA's decision not to pursue disclosure templates. That said, we note that Article 2 of the draft RTS envisages a uniform structure and sequence for disclosures in the interest of 'comparability'. While we understand this approach, we believe that ESG rating providers should be granted a degree of flexibility with respect to their disclosures and should be permitted to structure them in a manner that makes most sense in view of the rating's characteristics.

In addition, the disclosures, as currently envisaged, may be highly repetitive when it comes to making information concerning the organisation of ESG rating providers available in product-level disclosures. Consequently, ESMA should consider introducing the possibility to cross-reference or provide links to information on organisation-related items in product-level disclosures. We are of the opinion that such a measure would make disclosures more manageable to prepare from a provider perspective, and easier to digest from a user perspective.

Finally, ESMA could further clarify whether the reference in Reg. Art. 5 to the size of the undertaking pertains specifically to ESG related activities, or to the total operations of a group.

4. **Do you consider that the draft technical standards under Articles 23(4) or 24(3) should instead provide an expanded table in Annex proposing a sequence and structure for all disclosures to be made under parts 1 and 2 of Annex III? If yes, please explain the benefits of such an approach.**

Please see our response to Q3.

5. **Do you agree with ESMA's proposed cost benefit analysis? If not, please explain.**